

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-08 AGRE-00 AID-05 TRSE-00 OMB-01

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FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC PRIORITY 9559

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PASS DEPT OF AGRICULTURE

FROM AMBASSADOR

E.O. 11652: N/A

TAGS: EFIN, EAID, DR

SUBJ: GODR REQUEST FOR FY 77 PL 480 PRODUCTS

1. I HAVE RECEIVED A LETTER FROM DR RICARDO RICOURT, DIRECTOR OF THE PRICE STABILIZATION AGENCY (INESPRE), DESCRIBING THE NATURE AND QUANTITY OF AGRICULTURAL PRODUCTS INESPRE INTENDS TO IMPORT DURING THE BALANCE OF THIS FISCAL YEAR, I.E. UNTIL SEPT 30, 1977. THESE ARE: (1) RICE 45,360 METRIC TONS; (2) BEANS 5,500 METRIC TONS; (3) CORN 72,000 METRIC TONS; AND (4) VEGETABLE OIL (SOYBEAN) 24,000 METRIC TONS. WE ESTIMATE THE TOTAL VALUE OF THESE IMPORTS TO BE ABOUT DOLLARS 35 MILLION. IN HIS LETTER, RICOURT REQUESTED ASSISTANCE FOR FINANCING THE IMPORTATION OF THESE QUANTITIES UNDER BOTH THE PL 480 TITLE I AND CCC CREDIT PROGRAMS.

2. THIS MESSAGE ADDRESSES THE PL 480 TITLE I PORTION OF THE REQUEST. A SEPARATE MESSAGE IS BEING PREPARED WITH RESPECT TO CCC CREDITS.

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3. BOTH RICOURT AND FERNANDO PERICHE VIDAL, GOVERNOR OF THE CENTRAL BANK, HAVE URGED THAT AT LEAST PART OF THE GODR'S REQUIREMENT BE FINANCED UNDER PL 480. I HAVE IMPRESSED UPON BOTH THAT CHANCES WERE INDEED SLIM FOR ANY PL 480 ASSISTANCE DURING FY 77 CITING THE DIFFICULT ECONOMIC YEAR AHEAD (CY 1977), THEY ASKED THAT A SPECIAL EFFORT BE MADE TO FINANCE

DOLLARS FIVE MILLION OF RICE (OR OF ANY OF THE OTHER PRODUCTS MENTIONED ABOVE SHOULD SUCH PROVE EASIER) UNDER THE FY 77 PL 480 PROGRAM.

4. COMMENT: IT IS MY UNDERSTANDING THAT ALTHOUGH FY 77 PL 480 ALLOCATIONS HAVE ALREADY BEEN MADE FOR SOME TIME, THESE ALLOCATIONS ARE SUBJECT TO SOME FLUCTUATIONS AS CIRCUMSTANCES CHANGE IN VARIOUS COUNTRIES. THERE ARE SEVERAL IMPORTANT RELATED SITUATIONS HERE WHICH IN MY JUDGMENT WARRANT A SPECIAL EFFORT ON THE PART OF PERTINENT WASHINGTON AGENCIES TO PROVIDE THE GODR WITH DOLLARS FIVE MILLION UNDER FY 77 PL 480 WHICH HOPEFULLY MAY BECOME AVAILABLE IN THE COURSE OF SHIFTING ALLOCATIONS.

5. THE DRASTIC DROP IN THE PRICE OF SUGAR, THE TRIPLING OF DUTY ON SUGAR BY THE US, AND THE RECENT RISE IN PETROLEUM PRICES AUGUR THAT 1977 WILL BE THE WORST YEAR FOR THE DOMINICAN ECONOMY IN RECENT YEARS. EVEN WITH IMPORVED COFFEE AND COCOA PRICES, DOMINICAN EXPORT EARNINGS IN 1976 ARE OFF \$195 MILLION FROM THE PREVIOUS YEAR; AND ARE ABOUT THE SAME AS DURING 1974 (A MORE NORMAL YEAR). HOWEVER, INFLATION SINCE 1974 HAS MARKEDLY DECREASED THE PURCHASING POWER DERIVED FROM DOMINICAN EXPORTS. IMPORT COSTS OF ALL KINDS CONTINUE TO RISE (THE DR MUST IMPORT ALL OF ITS PETROLEUM). ONLY BY DEVICES TO DRESS UP THE YEAR-END BALANCE OF PAYMENTS FIGURES (DOLLARS 30 MILLION FORM US-OWNED GULF & WESTERN BROUGHT INTO THE COUNTRY IN DECEMBER), XK LOANS FROM FOREIGN SUPPLIERS (DOLLARS 60 MILLION FROM VENEZUELA FOR PETROLEUM LIMITED OFFICIAL USE

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IMPORTS), AND EXTENSIVE LOANS FROM COMMERCIAL BANKS (DOLLARS 25 MILLION FORM FIRST NATIONAL CITY BANK SINCE SEPTEMBER) HAVE THE DOMINICANS BEEN ABLE TO SQUEAK BY THUS FAR.

6. REFLECTING THE CONTINUING BALANCE-OF-PAYMENTS PROBLEM, THE MONETARY BOARD ADOPTED NEW RESTRICTIVE MEASURES JANUARY 27 DENYING OFFICIAL FOREIGN EXCHANGE FOR THE IMPORTATION OF A VARIETY OF ITEMS SUCH AS AUTOMOBILE TIRES, TUBES, AND BATTERIES; HOUSEHOLD UTENSILS; DIFFERENT ELECTRICAL ITEMS; PAPER AND CARDBOARD CONTAINER; AND A MISCELLANY OF OTHER CONSUMER GOODS, IN ADDITION TO A VARIETY OF OTHER IMPORTS THAT WERE PLACED ON THE SAME LIST SOME MONTHS AGO.

7. AS WASHINGTON AWARE DR HAS ALREADY DROWN DOWN GOLD TRANCHE AND COMPENSATORY FINANCING FOR THE SHORTFALL IN EXPORT EARNINGS. IMF TEAM HERE LAST FEW DAYS WORKING ON PAPER FOR FIRST CREDIT TRANCHE DRAWING. SAYING RELIABLE FIGURES SOMEWHAT HARD TO COME BY, IMF TEAM HEAD EDISON ZAYAS PREDICTS 1977 DEFICIT OF DOLLARS 40 OR 50 MILLION, BUT ON THE ASSUMPTION OF 11 CENTS

PER POUND FOR SUGAR. IF SUGAR REMAINS AT RECENT LEVELS OF SEVEN AND EIGHT CENTS, BALANCE-OF-PAYMENTS PROBLEM WILL OBVIOUSLY BE EVEN MORE SERIOUS. MOREOVER, THE WHIPSAW EFFECT OF DECLINING SUGAR PRICES AND RISING PETROLEUM PRICES

IS BEYOND THE CONTROL OF THE DOMINICANS. IN OTHER WORDS, THEIR BALANCE-OF-PAYMENTS PROBLEM, UNLIKE THAT OF SOME LDC'S, IS NOT RPT NOT LARGELY OF THEIR OWN MAKING.

8. COUPLED WITH THE BALANCE-OF-PAYMENTS PROBLEM IS THAT OF INFLATION OR PRICE STABILITY FOR ESSENTIAL FOODSTUFFS. THERE ARE INCREASING INDICATIONS THAT PRESIDENT BALAGUER INTENDS TO RUN AGAIN IN MAY 1978 AND THAT HE IS PAYING PARTICULAR ATTENTION

TO THE STATE OF THE ECONOMY DURING THE YEAR PRIOR TO THE ELECTION. HE WILL UNDOUBTEDLY WISH TO ENTER THE CAMPAIGN (WHICH OFFICIALLY BEGINS JANUARY 1, 1978) WITH LIMITED OFFICIAL USE

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FOOD PRICES STABILIZED AND WITH FOREIGN INDEBTEDNESS AT A MINIMUM CONSISTENT WITH REASONABLE GROWTH. SINCE BALAGUER

HAS BEEN OPENLY FRIENDLY TO THE U.S. AND MAY WELL CONTINUE AS PRESIDENT FOR THE NEXT SEVERAL YEARS, IT WOULD APPEAR TO BE IN OUR POLITICAL INTEREST TO CONCUR IN REQUESTS THAT HE WOULD REGARD AS ENHANCING HIS CHANCES FOR RE-ELECTION. GRANTING THE GODR'S REQUEST FOR A MODEST PL 480 PROGRAM WOULD BE A GESTURE OF SUPPORT FOR THE EFFORTS OF A VERY FRIENDLY GOVERNMENT TO CONTROL INFLATION WHILE ENSURING THE SUPPLY OF BASIC FOODSTUFFS TO ITS POPULATION.

9. FOR THESE REASONS, I WOULD HOPE THAT EVEN AT THIS LATE DATE A SPECIAL EFFORT WOULD BE MADE TO ALLOCATE DOLLARS FIVE MILLION FOR ECONOMIC ASSISTANCE UNDER PL 480 FOR FY 77. HURWITCH

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